

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

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| IN RE:<br><br>INTERSTATE POWER AND LIGHT<br>COMPANY | DOCKET NO. RPU-2012-0002<br>(TF-2012-0374) |
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**ORDER REQUESTING ADDITIONAL INFORMATION REGARDING THE  
SETTLEMENT AGREEMENT AND MODIFYING PROCEDURAL SCHEDULE**

(Issued September 21, 2012)

**PROCEDURAL BACKGROUND**

On August 16, 2012, Interstate Power and Light Company, the Consumer Advocate Division of the Department of Justice (Consumer Advocate), and Iowa Consumers Coalition (Archer Daniels Midland Company and Equistar Chemicals, L.P.) (collectively Parties) filed a Settlement Agreement (Settlement) that purports to resolve all of the outstanding issues regarding the general rate increase application filed by IPL on May 25, 2012. The Parties to the Settlement request that the Board approve the Settlement in its entirety and cancel the procedural schedule, including the hearing, or schedule an earlier hearing to address any questions the Board may have.

In Article X of the Settlement, entitled "Allocation of Revenue Requirement," the Parties agree that the Board should approve the tariff changes to IPL's Pipeline Corridor Transportation Service and Transport of Customer-Owned Gas tariffs and IPL's changes to the interruptible provisions of the General Service and Large General Service tariffs as proposed in IPL's initial filing. The Parties also agree that

the Board should approve IPL's updates to the Gas Service Agreement and the Gas Transportation Agreement.

The Board has reviewed the tariff changes referenced in Article X of the Settlement and has some questions about some of the tariff provisions. To obtain additional information about these proposed tariff changes agreed to in the Settlement, the Board is requesting that the Parties provide responses to the concerns and questions in this order.

### **DESCRIPTION OF TARIFF PROVISIONS AND QUESTIONS**

#### **A. Gas Service/Transportation Agreements, Sheet Nos. 264-284**

IPL states that it is making changes to update its gas service and transportation agreements. IPL explains that the agreements have been restructured and re-written to flow in a more logical manner, with numbered sections and section headings for easier reference. IPL has made the following specific changes to the agreements:

1. A new recitals section has been inserted in the first page of each agreement.
2. The references to facility extensions have been deleted because these are addressed separately in IPL's facilities extension agreements.
3. In the Gas Service Agreement, a new Exhibit B has been added that addresses interruptible service terms and conditions and a new telemetering data agreement, Exhibit C, has been added.

4. In the Transportation Agreement, Exhibit B addressing daily nominations has been replaced with a telemetering data agreement and a new Exhibit C addressing transportation risks has been added.

5. Alternative versions of the gas service and transportation agreements have been added which have additional "take-or-pay" provisions.

The Gas Service Agreement, Section 14.06-Tariff Sheets 264-274, appears to be reasonable for the most part and accomplishes the goals of having a standard agreement for provision of gas service. The Board has a question about the language in the last sentence of paragraph 11 Tariff Sheet 267 which reads as follows:

Nothing herein contained shall be construed as relieving the Company from any liability to its own employees while upon the Site of the Customer in the performance of their duty and by the direction of the Company, or as relieving the Company from any liability to the Customer due to the producer's act of negligence.

The Board is not clear about the reference to "producer's act of negligence." There does not appear to be another reference to "producer" in the agreement or a definition of the term. IPL should provide additional information concerning the meaning of this term in this context.

The Board also has questions about the Gas Service Agreement–With Take or Pay, Section 14.07-Sheets No. 275-284. It appears there are only two differences between the Gas Service Agreement in Section 14.06 and the Gas Service Agreement–With Take or Pay in Section 14.07. One difference is the Gas Service Agreement is for a term of one year and the Gas Service Agreement–With Take or

Pay is for a term of three years. The other difference is the addition of the following provision to the Gas Service Agreement–With Take or Pay:

Section 4.c In the event facilities are extended by the Company to provide service, after the second full year of service, the Customer's billings for the second year of service will be reviewed to determine base revenue (total rate schedule charges, less charges applicable to energy efficiency programs and cost of gas supply). If Customer was billed less than the minimum annual base revenue (facility investment divided by three), required to support the \$\_\_\_\_\_ of facility extension (total facility extension investment less any initial advance or contribution), Customer will be assessed an advance or contribution, supplemental to any previous advance or contribution, to reduce the investment in the facility extension to the level supported by Customer's second-year base revenue. Notwithstanding the foregoing, in the event Company and Customer enter into a take or pay or contribution in aid of construction agreement for the extension of any facilities, the provisions of any such take or pay or contribution in aid of construction agreement shall be controlling in the event of a conflict with this Agreement.

IPL should provide an explanation of the purpose for a separate Gas Service Agreement–With Take or Pay, an explanation of subparagraph 4.c, and why the term of this agreement is three years.

The Board also has questions about the provisions in subparagraph 4.c and how the provisions comply with the Board's extension rules at 199 IAC 19.3(10). The Board's extension rules provide that extensions of distribution mains are to be paid for by an advance for construction with refunds, when the estimated construction cost exceeds three times the estimated base revenue calculated on the basis of similarly-situated customers. 199 IAC 19.3(10)"c"(1). Service line extensions are to be paid for by a contribution in aid of construction, without refunds, if the extension exceeds

50 feet or 100 feet on private property, depending on the type of pipe installed. 199 IAC 19.3(10)"d."

The provisions in subparagraph 4.c appear to allow IPL to recalculate either the advance for construction or contribution in aid of construction after the first year of service to the customer. There is no provision for this recalculation in the Board's rule. IPL should explain the purpose of the provision, how it is intended to be applied, and whether the provision is consistent with the Board's extension rules.

In addition, the reference in the last sentence in subparagraph 4.c appears to be potentially ambiguous since the subparagraph is part of the Gas Service Agreement—With Take or Pay and the last sentence provides that some separate take or pay agreement would take precedence over the agreement provided for in IPL's tariff. A similar ambiguity appears to exist with regard to the reference to a contribution in aid of construction agreement in the last sentence. These references appear to address the situation where IPL has contracted with the customer under an agreement different than the agreement set out in Section 14.07. IPL should explain the purpose of the last sentence, what other take or pay or contribution in aid of construction agreements are being described, and why outside agreements should take precedence over the agreement in the tariff.

**B. Interruptible Service Requirements and Excess Facilities Charge, Sheet Nos. 40-47**

IPL currently requires all new interruptible customers to install telemetering that allows IPL to verify compliance when IPL calls for service interruptions. Legacy customers (those that were interruptible customers prior to August 22, 2003) are

currently exempt from this requirement. IPL proposes to remove the exemption for legacy customers and require all interruptible customers to have telemetering. IPL states that those customers affected will be given a reasonable amount of time to comply and will pay for the new telemetering through IPL's proposed Excess Facilities Charge. IPL states that the excess facilities provision provides customers an option when they request the installation of facilities beyond those afforded by IPL's standard tariff offering.

IPL proposes to add an Excess Facilities Charge similar to the Excess Facilities Charge in its electric tariff to its gas tariffs for Residential, General Service, and Large General Service. The Excess Facilities Charge will be a monthly charge equal to 1.6 percent of IPL's investment cost for any facilities that are in excess of those required for standard service. IPL states that the Excess Facilities Charge provision provides customers an option when they request the installation of facilities beyond those afforded by IPL's standard tariff offering.

The Board has concerns about the reasonableness of requiring legacy customers to install telemetry equipment and the application of the Excess Facilities Charge applied to interruptible customers. IPL does not have a separate interruptible customer class and offers interruptible service through its General Service and Large General Service tariffs. Under those tariffs, customers may choose either firm or interruptible service for all or a part of gas service. At one time, interruptible customers paid lower distribution rates on the utility system and lower gas costs through the purchased gas adjustment (PGA) rates. Currently, IPL's interruptible

customers pay the same distribution rate as firm service customers. This is because IPL no longer has constraints on its distribution system that require calls for interruption which, in effect, allows interruptible customers to receive the equivalent of firm service on IPL's distribution system. The financial benefit of being an interruptible customer comes from lower gas costs through the PGA. Interruptible customers do not pay interstate pipeline demand charges in their PGAs and interruptions would likely only be called if there were capacity or supply constraints on the interstate pipeline system.

IPL's annual report (IG-1) shows that the number of interruptible customers has been declining and there has only been one interruption in the last four years:

| <u>Year</u> | <u># of<br/>Interruptible<br/>Customers</u> | <u># of<br/>Interruptions</u> | <u># of<br/>Customers<br/>Interrupted</u> |
|-------------|---|-------------------------------|---|
| 2008        | 230   | 0                             | 0   |
| 2009        | 228   | 0                             | 0   |
| 2010        | 221   | 0                             | 0   |
| 2011        | 203   | 1                             | 1   |

Given how few interruptible customers IPL has, the rare incidence of interruption, and the possibility that natural gas supplies will be abundant for the foreseeable future, the Board questions whether IPL might be able to address its operational needs to monitor interruptions for legacy customers by some other means without requiring those customers to incur the expense of telemetry equipment. The Board notes that IPL managed curtailment of distribution system interruptible customers for many years prior to the availability of telemetry equipment and interruptions were more frequent during that period of time.

IPL proposes adding the following language to its Residential, General Service, and Large General Service tariffs as an option for legacy and new interruptible customers to pay for telemetry equipment:

Any standard facilities required to provide non-standard service, in excess of that permitted under this Schedule or the Company's General Rules and Regulations, shall be provided at a monthly amount equal to 1.6% of the Company's investment in such facilities.

The proposed language is similar to language in IPL's transportation service tariff; however, the language in the transportation service tariff specifically references telemetry equipment as shown below:

The Customer shall be responsible for all costs associated with any specific plant such as telemetering required in providing contract carriage service to the Customer. The additional charge is 1.6% per month of the Company's additional investment.

The proposed Excess Facilities Charge language is generic and appears to include facilities other than telemetry equipment. The Excess Facilities Charge language is also proposed for Residential service, where transportation and interruptible service is not available. This raises the question of what other plant costs customers might be required to install and pay for through this provision.

Further, it is not clear whether there is a limit to the amount of time a customer will be required to pay the Excess Facilities Charge. It appears that once the additional plant has been installed, the customer would pay the monthly Excess Facilities Charge indefinitely. IPL suggests that the Excess Facilities Charge mechanism is a financing option available to customers when the customer requests



installation of additional plant, but the proposed tariff language appears prescriptive rather than optional.

IPL should provide additional information to assist the Board in determining the reasonableness of the proposed tariff changes pertaining to interruptible service and the Excess Facilities Charges as proposed by IPL in this docket and agreed to in the Settlement. In addition, the Board is requesting the additional information described below.

1. Provide the following information separately for the General Service class and the Large General Service class, for each of the years 2003-2012:
  - a) The number of interruptible service customers at the beginning of the year;
  - b) The number of interruptible customers with telemetry equipment at the beginning of the year;
  - c) The number of customers that initiated interruptible service;
  - d) The number of customers initiating interruptible service that were required to install telemetry equipment;
  - e) The number of customers that terminated interruptible service;and
  - f) The number of service interruptions called by IPL during the year including, for each interruption, the date, duration, and number of customers interrupted.
2. For each interruptible customer with telemetry equipment, provide:

- a) The date the customer initiated interruptible service;
  - b) The installed cost of the telemetry equipment;
  - c) What payment options the customer was given to pay for the telemetry equipment, and
  - d) The total amount collected from the customer, to date, for the telemetry equipment.
3. Provide the current estimated cost of telemetry equipment for a typical customer.
4. Provide a description or explanation of the terms “standard facilities” and “non-standard service” in the Excess Facilities Charge tariff provision as applied to Residential, General Service, and Large General Service customers.
5. Is the proposed Excess Facilities Charge an optional or mandatory method of customer payment for excess facilities required to provide non-standard service? If optional, can the customer opt to pay the full cost of the excess facilities up front?
6. If telemetry equipment is installed for an interruptible customer and those costs are recovered through an Excess Facilities Charge, will that charge be recovered indefinitely?
7. Explain the basis and rationale for the 1.6 percent factor used in calculating the monthly Excess Facilities Charges.
8. Describe the circumstances when the Excess Facilities Charge would be applicable to residential customers.

### **PROCEDURAL SCHEDULE**

In the order issued June 22, 2012, docketing the general rate increase application filed by IPL, the Board established a procedural schedule for the filing of prepared testimony and a hearing on December 3, 2012. In the Settlement, the Parties requested the Board modify the procedural schedule to eliminate the filing of additional testimony and briefs. The Parties also requested the Board either accept the Settlement in its entirety or promptly schedule a hearing if further development of the record is determined to be necessary.

The Board in this order will modify the procedural schedule by eliminating the requirement to file additional testimony and briefs. The Board has not yet determined whether a hearing will be necessary; that decision will depend on the responses filed to the questions in this order. If a hearing is determined to be necessary, the Board will make every effort to schedule the hearing earlier than the currently scheduled date of December 3, 2012; however, the Board will not cancel that hearing date at this time in order to ensure the date is still available if the Board is not able to convene a hearing prior to that date.

### **ORDERING CLAUSES**

#### **IT IS THEREFORE ORDERED:**

1. Interstate Power and Light Company shall file responses to this order on or before October 5, 2012.

2. The Consumer Advocate Division of the Department of Justice, Archer Daniels Midland Company, and Equistar Chemicals, L.P., shall file any comments concerning this order on or before October 5, 2012.

3. The procedural schedule established in this docket by order issued June 22, 2012, is modified to eliminate the requirement for filing additional testimony and briefs.

**UTILITIES BOARD**

/s/ Elizabeth S. Jacobs

/s/ Darrell Hanson

ATTEST:

/s/ Judi K. Cooper

Executive Secretary, Deputy

/s/ Swati A. Dandekar

Dated at Des Moines, Iowa, this 21<sup>st</sup> day of September 2012.